

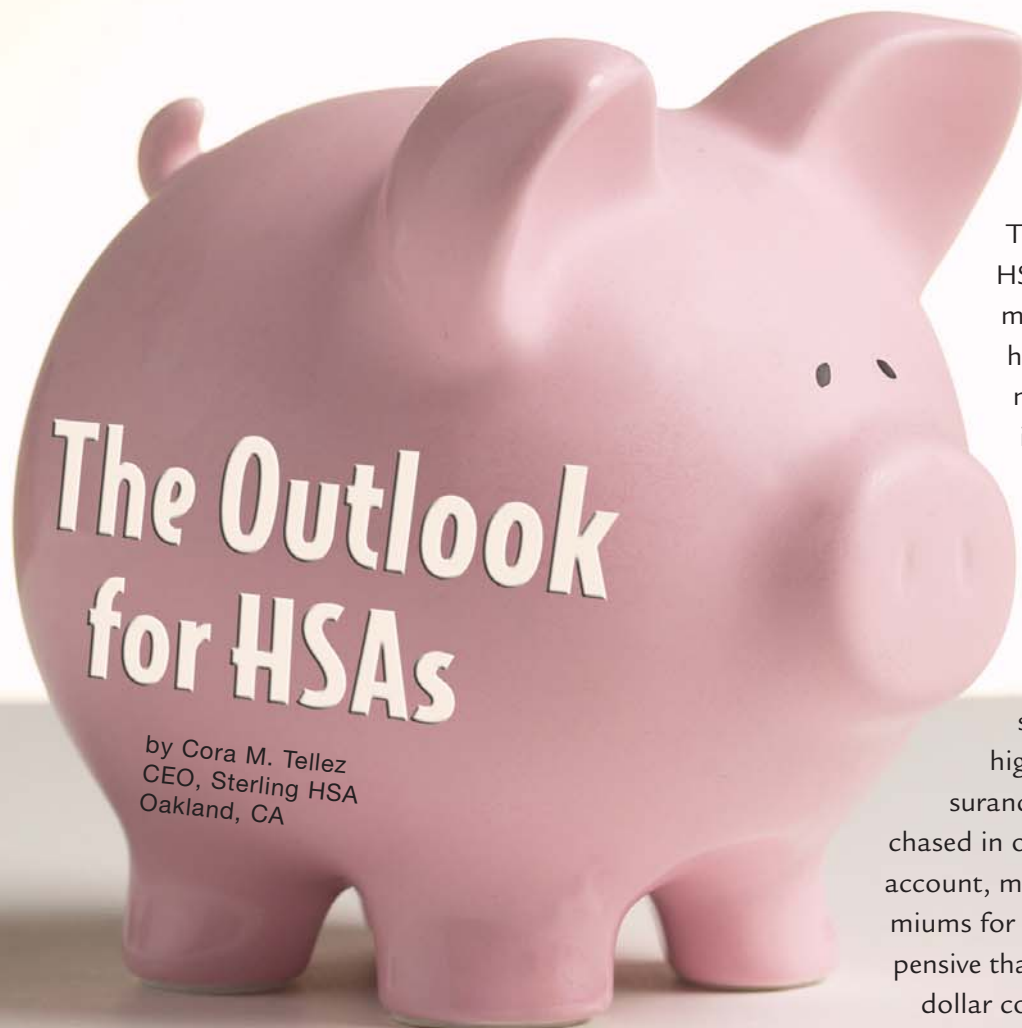
The early adoption of Health Savings Accounts is a very encouraging sign of consumer-driven change. This change is especially needed in an industry that must become more innovative in how we deal with two fundamental issues: affordability of health insurance and engaging consumers to be proactive partners in financing their health care.

The reality of our present-day affordability issue is an ongoing centerpiece of political debates, corporate and small company management concerns, and family conversations. The reasons are reflected in the following statistics:

By some estimates health care now accounts for 15% of our Gross Domestic Product. Despite this increasing share of our nation's spending, people are not any happier, healthier or more satisfied.

Compared to worker earnings and overall inflation, health insurance premiums have grown faster since 1996. As you know, annual rate increases are back in the double-digits, the level that prompted employers to adopt managed care in the mid-80s.

Employer-provided health insurance is decreasing. According to the Bureau of Labor Statistics, the employer insurance base is now at 45%, down from 63% ten years ago. While most companies that offer insurance pay between 75% to 100% of premiums, companies with a higher share of low-wage workers pay only 62%, so the burden on low-wage earners is actually much higher.



After more than 25 years in the industry, I believe that one solution to these problems is through HSAs. The introduction of the HSA represents a fundamental shift in financing health insurance and in moving the consumer into a central decision-making role. Since consumers contribute to and keep the money in their HSA, they make better choices about their health care services. And because high-deductible health insurance plans must be purchased in order to set up such an account, most people will find premiums for such plans to be less expensive than those with first dollar coverage.

Of course there are also the savings, tax and portability advantages. But the biggest advantage can be summarized in the notion that HSAs afford flexibility, control and choice to the person who best understands the value of medical care—the one seeking it. Early adoption by consumers indicates that these are precisely the reasons they like HSAs and why they should continue gaining in popularity.

Since inception in January 2004, early market response to HSAs has been very positive. According to the American Health Insurance Plans Consumer Study (August 2004), seven of ten Americans with private health insurance favor HSAs. Favorable response cuts across political affiliation, with 75% of Republicans and 67% of Democrats expressing interest. While certain states are generally trendsetters in adoption of new products and services, HSAs tend to be well-received throughout the country.

According to this same study, consumers reported the three things they most like about HSAs: personal control, choice and lower cost. The arguments that HSAs are only for the wealthy who want another tax-advantaged account are not holding true.

Studies conducted by eHealthInsurance and Assurant, as well as results at Sterling HSA, profile early consumer adopters of HSAs:

- 52% are over 40 years old
- 49% are families with children
- 41% have incomes of \$50,000 or less
- 30% were previously uninsured
- 38% have high school or technical school training

In addition, over 60% of Sterling clients use their accounts as a savings vehicle, while others actively deploy funds to pay for medical and dental bills.

Perhaps HSAs are growing in popularity because of how well the product fits into three fundamental shifts in addressing health care costs and delivery. The first shift is in cost. Rising health insurance premiums are forcing companies and individuals to evaluate their choices. Often a high-deductible insurance product is an affordable choice, particularly when coupled with a savings vehicle like an HSA.

The second shift is in benefit design, changing to one that is consumer-directed with choices of benefit options and provider networks based on individual needs and preferences.

The third shift is in medical management. We are moving from the managed care era with its emphasis on influencing supply, that is, physician behavior, to the consumer era, where we are impacting demand via consumer preferences. Again, consumers are at the center with choices of physicians and hospitals and a focus on consumer behavior, wants and needs.

In many instances, with the exception of critical medical care, health care choices are similar to other goods and services that consumers choose to buy (or not buy) every day. Allowing them to spend their own money from an HSA for medical

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services puts them in control and frames the choice in a retail mentality of price and value.

Much like the way 401(k)s have changed the way consumers view responsibility for their retirement savings, HSAs are changing their view of medical retirement savings. As consumers become the center of a new era in health care and how to fund it, HSAs will play a key role in helping them save for health care, now and in retirement. In fact, over the next 10 years, some expect that more than 40 million HSAs will be established.

With HSAs, another shift is occurring in our industry: how we must prepare ourselves to serve our clients. The HSA product is attracting banks, investment managers and others in the financial services industry with

little knowledge about health insurance. Insurance brokers and agents are coping with the need to better understand consumer expectations about establishing and servicing financial accounts.

At Sterling HSA, we guide both groups and our account holders through the process of establishing an HSA. We understand that successful implementation of an HSA portfolio requires a blended expertise in both health care and financial management skills. Just as with health care choices, we are also learning that consumer choice is a critical factor in providing excellent HSA management from a financial services perspective. Unlike many other HSA administrators, our account holders can self-direct their investments through the financial organization of their choice. They have responded well to this benefit. Again, consumer choice impacts success.

All of us in this industry are part of a major shift in health care financing. We can become champions for change and support the ultimate health consumer. In doing so, we advance the movement toward consumer empowerment and increased transparency in provider pricing and quality reporting. The end result would be fascinating to understand.

What changes in consumer behavior will we see? What changes in utilization patterns might we discern? With consumers having the financial incentive to ask interesting questions of their physicians and hospitals, what changes in medical quality reporting and practices might result? And, at the end of the day, what impact did all this have on health care cost? Stay tuned for the answers. ■



*Prior to founding Sterling HSA, Cora Tellez was president of the health plans division of Health Net Inc., an insurance provider that operated in seven states and achieved revenue of \$8 billion from health plans. She has also served as president of Prudential's western health care operations, CEO of Blue Shield of California, Bay Region, and regional manager for Kaiser Permanente of Hawaii. Cora is a national speaker on the issues of health care management change and HSAs. For more information, visit [www.sterlinghsa.com](http://www.sterlinghsa.com) or call 800-617-4729.*